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September 28, 2005

Hand Delivered
The Honorable Charles L.A. Terreni
Chief Clerk & Administrator
Public Service Commission of South Carolina
ATTN: Docketing Department
101 Executive Center Drive
Columbia, South Carolina 29210

Re: Generic Proceeding to Explore a Formal Request for Proposal for Utilities that are Considering Alternatives for Adding Generating Capacity
Docket No. 2005-191-E

Dear Mr. Terreni:

Enclosed please find the original and twenty-five copies of the testimony of Neville Lorick and Stephen Cunningham on behalf of South Carolina Electric & Gas Company in the above-referenced docket. This testimony supports SCE&G's position that no formal request for proposal process for utitilies considering alternatives for adding generating capacity is necessary and that no rule-making proceeding should be commenced.

By copy of this letter, I am serving the parties of record with a copy of this testimony.

Please date stamp the enclosed copy of this letter and return it with our courier. Should anything further be needed, please do not hesitate to contact me.

With kind regards,

Patricia B. Morrison

RETURN DATE: OK tad
SERVICE: OK tad

PBM/kms
Enclosure

cc: Len Anthony, Esq.
Kendall Bowman, Esq.
Richard L. Whitt, Esq.
Kevin A. Hall, Esq.
D. Larry Kristinik, Esq.
Frank R. Ellerbe III, Esq.
Shannon Bowyer Hudson, Esq.
Scott Elliott, Esq.

CERTIFICATE OF SERVICE

I hereby certify that on September 28th, 2005, a copy of the South Carolina Electric & Gas Company's testimony of Neville Lorick and Stephen Cunningham was served on the parties below by depositing said testimony in the U.S. Mail with appropriate postage affixed addressed as follows:

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Re: Generic Proceeding to Explore a Formal Request for Proposal for Utilities that are Considering Alternatives for Adding Generating Capacity
Docket No. 2005-191-E

DIRECT TESTIMONY

OF

NEVILLE O. LORICK

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2005-191-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH SOUTH CAROLINA ELECTRIC & GAS COMPANY.

A. Neville O. Lorick, 1426 Main Street, Columbia, South Carolina. My position is President and Chief Operating Officer of South Carolina Electric & Gas Company ("SCE&G" or the "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have a B.S. in mechanical engineering from the University of South Carolina. I began my employment with SCE&G in April of 1971, as a student assistant and was hired full-time in January of 1975, as an engineer. In March of 1978, I became the Assistant Plant Manager for our Canadys Station Fossil Steam Plant, and in September, 1982, was promoted to plant manager. In July of 1988, I was promoted to General Manager, Fossil and Production Operations and in July of 1995 was promoted to the position of Vice President of Fossil & Hydro Operations. In December of 2000, I was elected by the SCANA Board of

Directors to be the President and Chief Operating Officer of SCE&G. As President and Chief Operating Officer of SCE&G, I have responsibility for all electric generation, transmission and distribution operations of the Company.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In my testimony, I explain SCE&G's approach to procuring new capacity resources to support its electric system. I discuss the role that RFPs properly play in this process and how they are used in appropriate circumstances by SCE&G to supplement its market knowledge before new capacity decisions are made. I will also explain the reasons why SCE&G believes that a mandatory RFP, or mandatory RFP criteria, are not in the best interest of the State of South Carolina, or in the interest of reliable, efficient electric service over the long-run.

Q. WHY IS CAPACITY PROCUREMENT IMPORTANT TO SCE&G?

A. As an integrated electric utility SCE&G bears the responsibility to plan for the short- and long-term electric energy and capacity needs of over 593,000 customers. As Mr. Cunningham will testify, in fulfilling that obligation, SCE&G continuously monitors its needs for future generating capacity, and formulates plans for those needs on a 20 year cycle. The needs identified include needs for base–load, intermediate and peaking resources, as well as short-term capacity resources.

There is no more important function at SCE&G than planning to meet future electric needs in a reliable and efficient manner. The decisions concerning future capacity resources involve extremely careful analysis and evaluation. No decisions made at our Company involve more study or attention from our

generation group, and our senior leadership team, than decisions related to electric capacity. No decisions made by our Company require more informed business judgment to be exercised by senior leadership.

Q. WHY?

A. The generation capacity that we secure to serve our customers defines the reliability and cost of electric service on our system for decades. Electric generation units can have useful lives of 40 years or longer. The costs of these units and their operation represent approximately 72% of customers' bills on our system. Decisions concerning electric generation capacity drive the economics of our electric system like no other decision within our control.

Q. WHY IS INFORMED BUSINESS JUDGEMENT SO IMPORTANT IN THIS PROCESS?

A. Business judgment is required because of the large number of variables involved. Those variables include things like the size of the generation resource to be acquired; the fuel type and generation technology it represents; its location on the transmission grid and ability to support the location-specific needs for things like voltage support; its response time; its anticipated operating and maintenance costs; its location vis-à-vis rail lines or pipelines will provide fuel transportation; the cost structure and reliability of the rail or pipeline concerned; the resource's present and anticipated future environmental compliance costs; its ability to be retrofitted to meet additional environmental restrictions if imposed; its fuel efficiency; and similar concerns. In addition to a static analysis, the likely effects of these

variables must be considered over decades as conditions change on our system, in fuel markets, in our economy and in the nation's environmental regulations. The ability of the resource to respond to changes in these conditions must also be carefully considered in making these decision.

Q. WHAT ROLES DO MARKET RESOURCES PLAY IN THIS ANALYSIS?

A. SCE&G constantly monitors the markets for electric energy and capacity and at times is an active purchaser and seller in those markets. Where it appears that market resources may be able to meet supply needs for its system appropriately, SCE&G polls the market, in some cases informally, and in other cases through the issuance of formal RFPs. In cases where market resources can be an appropriate part of SCE&G's supply mix, SCE&G includes those resources in its comparative analysis of alternative supply options.

Q. DOES SCE&G EVER PARTNER WITH OTHER GENERATORS IN BUILDING GENERATION?

A Yes. SCE&G has been involved in a very successful 30-year partnership with Santee-Cooper in the construction, ownership, and operation of the V. C. Summer Nuclear Station. SCE&G has recently announced a partnership with Santee-Cooper to explore constructing a new nuclear unit to meet capacity needs for both systems beginning in the middle of the next decade.

Q. DOES SCE&G SUPPORT USING RFPs FOR BASE-LOAD GENERATION?

A. No. SCE&G does not believe that competitive bidding is generally an appropriate means for securing long-term base-load resources for a system like it operates. Long lead-times are involved in permitting and procuring these assets (or their replacements if a bid for the capacity is awarded and the competitive bidder does not perform). Maintaining the reliability, efficiency and availability of these assets over many decades is critically important to efficiently serving customers, and often involves retrofitting or other modifications to meet changing conditions. For these reasons, SCE&G believes that for an integrated utility system such as its system, base-load resources are not appropriately secured through competitive bidding.

Q. WHAT IS SCE&G'S POSITION REGARDING USING RFPs FOR OTHER GENERATION RESOURCES?

A. SCE&G is currently required to justify its supply procurement decisions through annual IRP plans, through proceedings under the South Carolina Utility Facility Siting and Environmental Protection Act. (S.C. Code Ann. § 58-39-10 et seq.), and through annual proceedings under the Fuel Clause Statute. (S.C. Code Ann. § 58-27-865). As a prudent utility, SCE&G considers market alternatives for intermediate and peaking resources, and short-term capacity needs. SCE&G also understands that it will be expected to justify the decision to issue or not issue a formal RFP whenever these issues come before the Commission.

Q. WHAT IS SCE&G'S POSITION REGARDING FORMAL RFP CRITERIA OR RFP REVIEW PROCESSES FOR SUCH MATTERS?

A. SCE&G believes that the present provisions for review of its generation procurement decision, through IRP reviews, Siting Act proceedings, and Fuel Clause proceedings, provide the proper level of oversight while preserving the Company's flexibility to make informed business judgments. SCE&G does not believe that a formal RFP process is required or advisable.

Q. WHY IS THAT THE CASE?

A. There are several reasons. One is that the more restrictive and formalized an RFP process is, the more it will water down the accountability that SCE&G and other utilities should bear for making supply decisions. Ultimately, SCE&G's customers and this Commission look to SCE&G to maintain a reliable and efficient electric supply to serve its customers. A restrictive or formalized RFP process can cloud that accountability and limit SCE&G's ability to exercise its best business judgment in light of all the factors listed above. Furthermore, however well designed a mandatory or restrictive RFP process may appear, it will never capture all the factors that must be looked at in making these decisions, particularly as these factors and their relative importance change over time.

Even in the best of circumstances, there will be unintended consequences from any formalized RFP process. And the danger clearly exists that the process will be exploited by project developers for ends that are inconsistent with the best interest of the utility system.

As it stands, the considerations that pertain to future supply decisions are complex and difficult to quantify (e.g., future fuel costs, the nature of future

environmental regulations, future maintenance expenses, future load shapes). Adding third party developers to the process requires that additional factors be considered, factors such as the present and future creditworthiness of the developer, its management and operational culture, the ability of its operational personnel to work well with others and support flexible interactions with our system, and the likelihood that mergers, acquisitions or personnel changes could change the culture or personnel involved.

It is difficult to design a mandatory or criteria-based RFP process that properly incorporates the judgment required in assessing all these parameters. Furthermore, in many cases the selection of a successful bidder in an RFP process is only the beginning of the process of negotiating a contract that can guide the parties though the complex and difficult steps of constructing the facility, putting it into operation and coordinating its management and operation over many years. Often, these contracts are not a one-size-fits-all proposition. Substantial tailoring of the contact to the needs and approaches of the individual parties is required. A mandatory or overly restrictive RFP process could seriously compromise the ability of the utility to negotiate an appropriate contract after a successful RFP bidder is selected. SCE&G's position is that the present structure best preserves the required management flexibility and judgment.

Q. HOW HAS THE CURRENT APPROACH TO REGULATION AND GENERATION PROCUREMENT WORKED IN SOUTH CAROLINA?

A. The traditional structure of integrated utility operations, with generation assets subject to cost of service regulation, has served the State of South Carolina well. Mandatory or highly structured RFP proceedings have historically been proposed as a way to limit the ability of integrated utilities to continue to serve their customers with assets built and permitted under cost of service regulation. SCE&G respectfully submits that there is no basis to conclude that the public interest requires a mandatory or highly structured RFP process in South Carolina. Such a process can only drive a wedge between the utility and its ability to make prudent business judgments on behalf of the needs of its customers.

Q. WHY IS IT IN THE BEST INTEREST OF CUSTOMERS TO KEEP GENERATION ASSETS UNDER COST-OF-SERVICE REGULATION?

A. For long-lived generation assets, keeping them under cost-of-service regulation can mean that customers pay less for service over time. Markets typically price electricity based on current incremental costs. Prices under cost-of-service regulation reflect the plant's original cost, less depreciation. For plants built in the 1950's, 1960'and 1970's, the original cost was far less than today's costs, and depreciation has reduced that cost even lower. Had these plants been built under 10 or 20 year contracts, customers would now be paying something much closer to market prices for these plants' output, which would be substantially higher.

I would also note that one of the reasons we have been able to keep these older plants on-line and efficiently serving customers is that SCE&G has had the right, as owner, to make the operational and environmental upgrades needed to

keep them current with present requirements. For some plants, such as Urquhart and Williams Stations, we have actually retrofitted all or part of the plants to use a different fuel than they were constructed to burn. We have also managed the upgrades and schedule of environmental retrofits of our plants --as a fleet-- to minimize the cost of complying with new environmental regulations. We have identified opportunities, such as the SynFuels tax credits and ash sales, to create value from our generation activities that has been passed on directly to customers. It might not have been possible for us to do these things if SCE&G were obtaining generation capacity under a series of contracts negotiated with third parties under mandatory RFP processes. I question whether anyone would have had the foresight, negotiating skills and contractual drafting skills to create documents that would have made all these things possible had mandatory RFP processes been required 20, 30, or 40 years ago.

Q. ARE THERE OPERATIONAL ADVANTAGES TO SCE&G OWNING ITS OWN GENERATION?

A. Yes, there are. Like all utilities SCE&G has operating parameters for all its units to protect them from excessive wear, tear and operationally-caused damage. There are ramp rates for our plants that determine how fast a plant can be brought to full capacity and voltage limits that require plants to be shut down if voltage on the system swings too high or too low. These are the same kind of parameters you would find in unit sales contracts for single unit generation capacity.

However, the people who operate our generation units know that our primary commitment, as an integrated utility, is to keep the lights on for our customers. In system emergencies, our plant operators can and do make split-second decisions to exceed these parameters and so keep plants on line during voltage swings or generation emergencies.

As the operator of an integrated system, we can take these steps because we are willing to bear the potential cost from these actions to prevent our customers being blacked out. A third party seller of capacity would not have the same incentives to risk their assets to preserve the system. The independent power developers and their investors have no direct responsibility to electric customers or the regulators who protect them as an integrated utility does. There is little incentive for independent power developers to put their investors' assets and returns at risk to prevent someone else's customers from losing service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

DIRECT TESTIMONY OF

STEPHEN M. CUNNINGHAM

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2005-191-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephen M. Cunningham. My business address is 111 Research Drive, Columbia, SC, 29203.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by South Carolina Electric and Gas Company (SCE&G) and manage the development of new generation projects.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree in Electrical Engineering from Clemson University in 1972. I began my career with Duke Power Company that same year, performing design work on coal and nuclear generating plants. In 1974, I was employed by SCE&G to work on the design, construction and operation of the V. C. Summer Nuclear Station. During my fifteen-year affiliation with the nuclear project, I performed various engineering functions from design to management. In 1989, I transferred to the fossil and hydro generation group, where I managed the design engineering organization. From 1992 through 1996, I was Plant Manager at SCE&G's Wateree Station. In 1996, I moved to the Power Block Services, now called the New

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Project Development group, where I currently manage and coordinate the development of new generation projects.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe how SCE&G identifies the need for future generating capacity, determines the appropriate type of capacity to add and how best to supply that capacity.

Q. DESCRIBE THE PLANNING PROCESS SCE&G USES TO DETERMINE THE NEED FOR NEW GENERATION RESOURCES.

A. The first step in the planning process is to forecast the firm peak demand, compare it to existing capacity and ascertain the need for additional resources. Since peaking units (gas fired combustion turbines) have the lowest capital costs, we use them to construct our reference base case. We first model the costs of meeting the need for new capacity by an expansion plan containing peaking units only. It becomes the reference plan against which other options are evaluated. We then want to determine if there is another expansion option that can create a lower total cost for customers.

Our next step is to consider expansion plans with higher capital costs but lower energy costs. We would consider expansion plans containing intermediate generating units such as a combined cycle plant and plans containing baseload units such as a coal or a nuclear unit. A combined cycle unit increases the capital costs over the "all peaker" plan but lowers the operating costs because it burns natural gas more efficiently, *i.e.,* it has a better heat rate. In the baseload scenario we take this trade-off between capital costs and operating costs a step further. For example, a coal plant has higher capital costs than either a peaker or a combined cycle plant, but it has lower operating costs because it can burn coal--generally a lower cost fuel than natural gas.

The nuclear option has the highest capital cost of all of these options but enjoys a significantly lower fuel cost. We also look for ways to capture additional cost saving benefits from economies of scale. Economies of scale can be created by building a plant with greater capacity or by building multiple units at the same time.

Extensive modeling is performed to evaluate the impact of each of the different expansion options on the costs to our customers. This modeling simulates the economic dispatch of the new resources together with our existing resources along with purchases from and sales to wholesale markets over a twenty year period. It captures all variable costs including fuel, operation and maintenance, environmental costs as well as all fixed costs including taxes, insurance and the cost of capital. Since the results of this modeling is dependant upon assumptions such as the projected future cost of different fuel types, we run sensitivity analysis to determine how changes in those assumptions affect the outcome. While cost is not the only consideration, the plan with the lowest cost impact to our customers over the twenty year period would be our preferred expansion option. Ultimately, this process determines the best mix of base-load, intermediate and peaking resources that utilize a diverse mix of fuels to most economically serve our customers over the long term.

Q. HOW ARE THE COMMISSION AND INTERESTED PARTIES KEPT INFORMED ABOUT SCE&G'S SUPPLY NEEDS?

A. SCE&G files its Integrated Resource Plan (IRP) each year. This document contains our latest forecast of peak loads and resource needs. When we file the IRP, we cannot always identify how we will meet these resource needs because we may not know at that time. Resource planning at SCE&G is almost a continuous process in which inputs and assumptions are routinely revised and improved as the Company moves closer to the point at which a decision

will have to be made. When a decision is made to build a plant but before the Company commits to doing so, there will be a Siting Hearing in which the Company is required to explain and defend the decision and share most of the data with interested parties through the discovery process.

Q. HOW DO THE POWER MARKETS COME INTO YOUR PLANNING?

A. Before we make the decision to build a plant, we would assess the market for power from both a purchasing and a selling standpoint. If we can save our customers significant amounts of cost through a purchase, we would consider the purchase as an alternative to building. On the other hand, if there was an opportunity to sell power, we might try to capture the economies of scale associated with building a larger plant or multiple units and offset the additional cost through a firm capacity sale.

Q. CAN YOU GIVE AN EXAMPLE OF THIS?

A. Yes. As part of bringing on our last coal plant, the Cope plant, we purchased capacity for three years prior to the commercial date. Then when Cope came online, there was no extra capacity. On the other hand, the Jasper plant was built to capture significant economies of scale and the incremental cost of the extra capacity was more than offset by a firm capacity sale. Transactions such as these help us smooth out what would otherwise be very "lumpy" capacity additions.

Q. SHOULD YOU ALWAYS ISSUE AN RFP TO ASSESS THE MARKET?

A. No, an RFP is not always necessary or helpful. For example in 1998 when we were deciding on the next increment of supply which ended in the Urquhart Re-Powering Project, we felt it important to issue an RFP because at the time there was a lot of independent power plant development, a lot of sellers in the market and an RFP would help understand what purchasing

options were available in this very rapidly developing market. Self-build turned out to be the best alternative for our customers. Our analysis and decision are part of the siting hearing record for the Urquhart Re-powering Project.

After Urquhart we started planning for the next increment of need which resulted in the Jasper plant. In that case we did not issue a new RFP. It was only a year or so after completing work on the Urquhart RFP so prices and opportunities in the market had not substantially changed. We concluded that little would be gained by going through another expensive and time consuming RFP process when we had sufficient knowledge of the market to make the decisions we needed to make at the time. We explained our reasoning for this decision to the Commission and it is part of the siting hearing record for the Jasper plant.

As another example, the recently passed Energy Policy Act of 2005 contains incentives to revive the nuclear power industry. SCE&G, like many other utilities, is looking into this option. If we find that new nuclear capacity will provide lower and more stable costs over the long term, I do not believe we would issue an RFP to seek similar capacity through a power purchase.

Q. WHEN IT IS APPROPRIATE TO ISSUE AN RFP, SHOULD THE PROCESS BE FORMALIZED THROUGH STRICT REGULATIONS SET UP BY THE COMMISSION?

A. No, I don't believe a formalized approach will guarantee the best decision for our customers. There are many factors to consider in an RFP process and many of them are not easily quantified. Weighted evaluation criteria are often part of an RFP process and it is difficult in advance to appropriately weight factors, which in fact take on different weights in different circumstances as conditions change. Due to changing markets, fuel costs, environmental regulations and other economic and risk factors, rigid, quantitative evaluation criteria established

in advance of a formal RFP are not likely to lead to the best result at the time a decision must be finalized. You really can't replace sound business judgment with a formula.

Q. WHAT IMPACT WOULD A MANDATORY STRUCTURED RFP PROCESS HAVE ON SCE&G'S PLANNING AND DECISION MAKING PROCESS?

A. The primary impact will be that of limiting SCE&G's flexibility in making prudent decisions about future generation resources. The best solutions for adding new capacity typically evolve during a planning and decision making process that takes place over several years. At SCE&,G, planning is an ongoing process. Options evolve over time and information about fuel costs, technology, environmental policy, load shapes and market dynamics change. We design our capacity procurement processes to keep options open as long as possible so that when a commitment is made, it is made as late as possible with as much current information as possible. A structured RFP process, which would be designed to protect the commercial interests of bidders, will require many decisions to be made very early in the process. Under a structured RFP process, any changes to the RFP or the associated evaluation criteria will require the time and expense of rebidding.

Q. CAN YOU RELATE ANY EXAMPLES OF GENERATION DECISIONS THAT EVOLVED OVER TIME?

A. Yes. The process that led up to the decision to repower two aging coal fired units at our Urquhart station is a good example. The planning process indicated the need for additional peaking capacity starting in 2001. As indicated above, a formal RFP process was utilized to determine if SCE&G should purchase this capacity and energy or self-build peaking capacity to serve the need. SCE&G's self-build option was to install two combustion turbines at our Cope plant site and take advantage of existing infrastructure and manpower. When evaluated against a

short list of bids, this self-build option was determined to be the most reliable and economic option. During this same time frame significant work was being done to determine our best strategy for complying with NOx and SOx environmental regulations for our coal units. We determined that a major capital expenditure for adding selective catalytic reduction to Cope station could be avoided if NOx emissions from Urquhart 1 & 2 were significantly reduced as a result of repowering them using combustion turbines. This plan would also eliminate many capital and O&M expenditures required to maintain the reliability of Urquhart 1 & 2 as well as eliminating the cost of purchasing allowances for the SO_2 produced while burning coal. The Urquhart repowering option ultimately proved to be the most beneficial solution for this capacity requirement. We applied for and received siting authorization for this project from the PSC in 2000 and it entered commercial operation in the summer of 2002. A short term firm capacity purchase of 100 MW helped us meet our minimum reserve requirements in the summer of 2001 until this project could be completed.

This illustrates the agility necessary to respond to changing environmental regulations and make timely decisions to assure reliable and economic electric supply for our customers. While the RFP in this example did not result in a contract it did provide confirmation that SCE&G's self-build options were the better alternatives. If this had been a structured RFP process designed primarily to guarantee fair competition for the independent bidders, SCE&G's flexibility to create this solution would have been encumbered.

Q. **HOW WOULD A STRUCTURED RFP PROCESS FIT INTO THE SCHEDULE FOR NEW BASELOAD RESOURCES?**

A. As an illustration, assume SCE&G's planning indicates baseload generation in the form of a large supercritical coal fired unit is needed for SCE&G's system in 2015. The total duration

for such a project from the start of permitting to commercial operation is approximately eight years including about two years of permitting followed by six years of engineering, procurement and construction. A structured RFP for this need would have to be issued far enough in advance of the start of permitting to allow bidders to select sites and perform engineering to support a permit application. Thus the RFP would need to be issued as much as nine years in advance of commercial operation. Without the restrictive structure of an RFP, SCE&G would have significant flexibility to change design, location, configuration, technology, etc. of the project up to six years before commercial operation. This flexibility could prove to be very important as we deal with changing environmental requirements and volatile fuel prices.

Q. WHAT ARE SOME OF THE FACTORS OTHER THAN COST THAT MAY BE DIFFICULT TO PUT IN A FORMULA?

A. When we issued the RFP to make the Urquhart decision, we formed a committee of employees with various areas of expertise to assess the bids. Some of the factors that were discussed and weighed through judgment based on experience were: reliability issues related to generation and the transmission path; operational factors such as lead time for scheduling, ramping, minimum up time, etc.; and issues of counter-party credit worthiness both currently and throughout the life of the contract. I don't believe a formalized process with rigid, quantitative evaluation criteria can replace experience and judgment when it comes to weighing the pros and cons of each power purchase bid.

Q. **IS THE LOWEST COST OPTION ALWAYS THE BEST OPTION?**

A. Not necessarily. While cost is important, you need to balance those other factors I discussed above. This is especially true when the cost difference between the choices is relatively small. The final decision must be based on experience and judgment. I also want to

stress that SCE&G makes decisions based on the long term. SCE&G has often chosen options that are more costly in short term but provide significant cost savings to our customers over the 20 to 30 year planning horizon. This is certainly the case when considering large baseload additions like coal or nuclear.

Q. ISN'T IT UNFAIR TO ALLOW SCE&G TO OVERSEE ITS OWN RFP PROCESS?

A. Absolutely not. In fact SCE&G is precisely the entity who should oversee the process. SCE&G has the obligation to serve, is accountable for providing reliable and reasonably priced power to its customers and must justify and stand behind any supply decisions that are made. SCE&G is the most knowledgeable about its system, its load and its customers. SCE&G has the necessary experience to weigh the various factors that should be considered in a decision. Furthermore the Utility Facility Siting and Environmental Protection Act requires "[t]hat the facilities will serve the interests of system economy and reliability" (Section 58-33-160 (1)(d)). SCE&G is in the best position to analyze system economy and reliability.

Q. HOW WILL BIDDERS IN THE RFP PROCESS BE ASSURED OF A FAIR DECISION?

A. I believe our current regulatory process will give them that assurance. This Commission, its staff and the newly formed Office of Regulatory Staff will certainly review any decision made by SCE&G and all analyses will be subject to discovery in a siting proceeding. After all, it is the interest of customers, not power developers, that regulation is intended to protect. The best way to ensure that these interests are protected is to place the decision making discretion, responsibility and accountability on the utility, with oversight by public bodies that are empowered to protect the public interest.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.